

## DECISION MEMORANDUM

**TO: COMMISSIONER KJELLANDER  
COMMISSIONER SMITH  
COMMISSIONER HANSEN  
COMMISSION SECRETARY  
LEGAL  
WORKING FILE**

**FROM: RICK STERLING**

**DATE: NOVEMBER 26, 2004**

**RE: UPDATE TO THE PURPA AVOIDED COST RATES TO INCORPORATE  
NEW FUEL PRICES AND NEW UTILITY COSTS OF CAPITAL  
CASE NOS. AVU-E-04-5, IPC-E-04-25 AND PAC-E-04-5**

Three recent events have triggered consideration of computation of new PURPA avoided cost rates—the conclusion of general rate cases for Idaho Power and Avista, and the release of a new natural gas price forecast by the Northwest Power and Conservation Council (NPCC)<sup>1</sup>.

The conclusion of a general rate case affects avoided cost rates because cost of capital figures are used in avoided cost computations in accordance with the approved methodology. Staff believes that the appropriate time to incorporate new cost of capital figures is following a general rate case. A Final Order in Idaho Power's general rate case was issued on May 25, 2004 (Order No. 29505) and a Reconsideration Order was issued on September 28, 2004 (Order No. 29601). A Final Order in Avista's general rate case was issued on October 8, 2004 (Order No. 29602).

On Friday, September 24, 2004, the Northwest Power and Conservation Council released a new natural gas price forecast. Because the new forecast was released at about the same time as the Idaho Power and Avista rate cases were concluded, Staff believes both the new cost of capital figures and the new natural gas prices should be incorporated in the computation of new avoided cost rates. Staff is not proposing to revise the cost of capital figures used for PacifiCorp.

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<sup>1</sup> The Northwest Power Planning Council (NWPPC) is now known as the Northwest Power and Conservation Council (NPCC).

The practice of updating avoided cost rates due to new fuel price forecasts can be traced to Order No. 29124. In that Order, the Commission adopted a fuel price forecast from the draft Fifth Northwest Conservation and Electric Power Plan, April 25, 2002 of the Northwest Power Planning Council (NWPPC) as a reasonable method for calculating a starting gas price in the avoided cost methodology. The Commission stated that “natural gas prices can be updated when a new NWPPC forecast become available.” Order No. 29124 at 10. The Commission has since approved updated gas prices based on an April 22, 2003 NWPPC forecast in December 2003. Order No. 29391.

The new rates computed using the Council’s September 24, 2004 natural gas price forecast and Idaho Power’s and Avista’s revised costs of capital are approximately 5 mills/kWh higher than the rates currently in effect for all three utilities. A copy of the revised fuel price forecast, computation of starting year gas price and escalation rate, and Staff computation of the resultant avoided cost rates was provided to PacifiCorp, Idaho Power and Avista for their review.

In its review of the draft rate computations, Idaho Power pointed out to Staff that an updated general inflation rate of 2.9% had been used in the spreadsheet that calculates the initial gas price and the gas price escalation rate. Idaho Power contends that updating the general inflation rate is outside the scope of the fuel price and cost of capital changes outlined by the Commission in establishing these dockets. Moreover, the general inflation rate is also one of many other variables used in the avoided cost spreadsheet, yet none of those other variables are being updated in these proceedings. Staff agrees with Idaho Power that the general inflation rate should not have been changed. PacifiCorp in its comments concurs. Staff has re-computed the avoided cost rates using a general inflation rate of 2.7%, which was used previously and as established in Order No. 29124. No other errors or corrections were identified or recommended by any of the utilities following their reviews.

### **COMMISSION DECISION**

Pursuant to Commission approved avoided cost methodology (Order No. 29124) natural gas prices are to be updated when a new Northwest Power & Conservation Council forecast becomes available. The medium fuel price forecast prepared by the Northwest Power & Conservation Council has changed. The resultant change in avoided cost rates is a simple

arithmetic calculation. The new forecast includes a new starting gas price and fuel escalation rate.

Pursuant to Order No. 29628, the Commission also ordered that the new avoided cost computations incorporate the new cost of capital figures recently established for Idaho Power and Avista in their respective rate cases. The new cost of capital figures have been incorporated in the computation of the attached rates.

Staff recommends that the Commission approve the Staff calculated changes in the avoided cost rates for Idaho Power, Avista and PacifiCorp for an effective date of December 1, 2004.

  
Rick Sterling

udmemos/avoidedcost dm2

**AVISTA UTILITIES**  
**AVOIDED COST RATES FOR NON-FUELED PROJECTS**  
**SMALLER THAN TEN MEGAWATTS**  
**December 1, 2004**  
mills/kWh

LEVELIZED							NON-LEVELIZED	
CONTRACT LENGTH (YEARS)	ON-LINE YEAR						CONTRACT YEAR	NON-LEVELIZED RATES
	2004	2005	2006	2007	2008	2009		
1	50.21	51.36	52.54	53.75	54.99	56.25	2004	50.21
2	50.76	51.92	53.12	54.34	55.59	56.87	2005	51.36
3	51.30	52.48	53.69	54.92	56.18	57.48	2006	52.54
4	51.83	53.03	54.25	55.49	56.77	58.08	2007	53.75
5	52.36	53.56	54.79	56.05	57.34	58.66	2008	54.99
6	52.87	54.09	55.33	56.60	57.91	59.24	2009	56.25
7	53.38	54.60	55.86	57.14	58.46	59.80	2010	57.54
8	53.87	55.11	56.38	57.67	59.00	60.36	2011	58.87
9	54.35	55.60	56.88	58.19	59.53	60.90	2012	60.22
10	54.82	56.09	57.38	58.70	60.05	61.43	2013	61.61
11	55.29	56.56	57.86	59.19	60.55	61.94	2014	63.03
12	55.73	57.02	58.33	59.67	61.04	62.45	2015	64.48
13	56.17	57.47	58.79	60.14	61.52	62.94	2016	65.96
14	56.60	57.90	59.23	60.60	61.99	63.42	2017	67.48
15	57.01	58.33	59.67	61.04	62.45	63.88	2018	69.03
16	57.42	58.74	60.09	61.47	62.89	64.34	2019	70.62
17	57.81	59.14	60.50	61.89	63.32	64.77	2020	72.25
18	58.19	59.53	60.90	62.30	63.73	65.20	2021	73.91
19	58.56	59.91	61.29	62.70	64.14	65.61	2022	75.61
20	58.92	60.27	61.66	63.08	64.53	66.02	2023	77.35
							2024	79.14
							2025	80.96
							2026	82.82
							2027	84.73
							2028	86.68
							2029	88.68

**AVISTA UTILITIES**  
**AVOIDED COST RATES FOR FUELED PROJECTS**  
**SMALLER THAN TEN MEGAWATTS**  
**December 1, 2004**  
mills/kWh

LEVELIZED							NON-LEVELIZED	
CONTRACT LENGTH (YEARS)	ON-LINE YEAR						CONTRACT YEAR	NON-LEVELIZED RATES
	2004	2005	2006	2007	2008	2009		
1	14.00	14.32	14.65	14.98	15.33	15.68	2004	14.00
2	14.15	14.47	14.81	15.15	15.50	15.85	2005	14.32
3	14.30	14.63	14.97	15.31	15.66	16.02	2006	14.65
4	14.45	14.78	15.12	15.47	15.82	16.19	2007	14.98
5	14.60	14.93	15.27	15.63	15.98	16.35	2008	15.33
6	14.74	15.08	15.42	15.78	16.14	16.51	2009	15.68
7	14.88	15.22	15.57	15.93	16.30	16.67	2010	16.04
8	15.02	15.36	15.72	16.08	16.45	16.83	2011	16.41
9	15.15	15.50	15.86	16.22	16.59	16.98	2012	16.79
10	15.28	15.63	15.99	16.36	16.74	17.12	2013	17.17
11	15.41	15.77	16.13	16.50	16.88	17.27	2014	17.57
12	15.54	15.89	16.26	16.63	17.02	17.41	2015	17.98
13	15.66	16.02	16.39	16.77	17.15	17.55	2016	18.39
14	15.78	16.14	16.51	16.89	17.28	17.68	2017	18.81
15	15.89	16.26	16.63	17.02	17.41	17.81	2018	19.25
16	16.01	16.38	16.75	17.14	17.53	17.94	2019	19.69
17	16.12	16.49	16.87	17.26	17.65	18.06	2020	20.15
18	16.22	16.60	16.98	17.37	17.77	18.18	2021	20.61
19	16.33	16.70	17.09	17.48	17.88	18.29	2022	21.09
20	16.43	16.80	17.19	17.59	17.99	18.41	2023	21.58
							2024	22.07
							2025	22.58
							2026	23.11
							2027	23.64
							2028	24.19
							2029	24.75

EFFECTIVE DATE	ADJUSTABLE COMPONENT
12/1/2004	36.21

The total avoided cost rate in each year is the sum of the adjustable component and the fixed component from either of the tables above.

Example 1. A 20-year levelized contract with a 2005 on-line date would receive the following rates:

Years	Rate
1	16.80 + 36.42
2-20	16.80 + Adjustable component in each year

Example 2. A 4-year non-levelized contract with a 2005 on-line date would receive the following rates:

Years	Rate
1	14.32 + 36.42
2	14.65 + Adjustable component in year 2006
3	14.98 + Adjustable component in year 2007
4	15.33 + Adjustable component in year 2008

**IDAHO POWER COMPANY**  
**AVOIDED COST RATES FOR NON-FUELED PROJECTS**  
**SMALLER THAN TEN MEGAWATTS**  
**December 1, 2004**  
mills/kWh

		LEVELIZED					NON-LEVELIZED	
CONTRACT LENGTH (YEARS)	ON-LINE YEAR						CONTRACT YEAR	NON-LEVELIZED RATES
	2004	2005	2006	2007	2008	2009		
1	49.21	50.34	51.50	52.69	53.90	55.14	2004	49.21
2	49.75	50.90	52.07	53.27	54.50	55.75	2005	50.34
3	50.29	51.45	52.64	53.85	55.09	56.36	2006	51.50
4	50.82	52.00	53.19	54.42	55.67	56.96	2007	52.69
5	51.35	52.53	53.74	54.98	56.25	57.54	2008	53.90
6	51.87	53.06	54.29	55.54	56.82	58.13	2009	55.14
7	52.38	53.59	54.82	56.09	57.38	58.70	2010	56.41
8	52.88	54.10	55.35	56.63	57.93	59.27	2011	57.71
9	53.38	54.61	55.87	57.16	58.47	59.82	2012	59.04
10	53.87	55.11	56.38	57.68	59.01	60.37	2013	60.40
11	54.35	55.60	56.88	58.19	59.53	60.91	2014	61.80
12	54.82	56.08	57.38	58.70	60.05	61.44	2015	63.22
13	55.28	56.56	57.86	59.19	60.56	61.96	2016	64.68
14	55.74	57.02	58.34	59.68	61.06	62.46	2017	66.17
15	56.18	57.48	58.80	60.16	61.55	62.96	2018	67.70
16	56.62	57.93	59.26	60.63	62.02	63.45	2019	69.26
17	57.05	58.36	59.71	61.08	62.49	63.93	2020	70.85
18	57.47	58.79	60.15	61.53	62.95	64.40	2021	72.49
19	57.88	59.21	60.57	61.97	63.40	64.86	2022	74.16
20	58.27	59.62	60.99	62.40	63.84	65.31	2023	75.87
							2024	77.62
							2025	79.41
							2026	81.25
							2027	83.12
							2028	85.04
							2029	87.00

**IDAHO POWER COMPANY**  
**AVOIDED COST RATES FOR FUELED PROJECTS**  
**SMALLER THAN TEN MEGAWATTS**  
**December 1, 2004**  
mills/kWh

LEVELIZED							NON-LEVELIZED	
CONTRACT LENGTH (YEARS)	ON-LINE YEAR						CONTRACT YEAR	NON-LEVELIZED RATES
	2004	2005	2006	2007	2008	2009		
1	13.00	13.30	13.61	13.92	14.24	14.57	2004	13.00
2	13.14	13.45	13.76	14.08	14.40	14.73	2005	13.30
3	13.29	13.59	13.91	14.23	14.56	14.90	2006	13.61
4	13.43	13.74	14.05	14.38	14.71	15.05	2007	13.92
5	13.57	13.88	14.20	14.53	14.87	15.21	2008	14.24
6	13.70	14.02	14.35	14.68	15.02	15.37	2009	14.57
7	13.84	14.16	14.49	14.82	15.17	15.52	2010	14.91
8	13.97	14.30	14.63	14.97	15.31	15.67	2011	15.26
9	14.11	14.43	14.77	15.11	15.46	15.82	2012	15.61
10	14.23	14.56	14.90	15.25	15.60	15.96	2013	15.97
11	14.36	14.69	15.04	15.38	15.74	16.11	2014	16.34
12	14.49	14.82	15.17	15.52	15.88	16.25	2015	16.72
13	14.61	14.95	15.30	15.65	16.01	16.38	2016	17.11
14	14.73	15.07	15.42	15.78	16.15	16.52	2017	17.51
15	14.85	15.19	15.55	15.91	16.28	16.65	2018	17.91
16	14.97	15.31	15.67	16.03	16.40	16.78	2019	18.33
17	15.08	15.43	15.79	16.15	16.53	16.91	2020	18.75
18	15.19	15.54	15.90	16.27	16.65	17.04	2021	19.19
19	15.30	15.65	16.02	16.39	16.77	17.16	2022	19.64
20	15.41	15.76	16.13	16.50	16.89	17.28	2023	20.09
							2024	20.56
							2025	21.04
							2026	21.53
							2027	22.03
							2028	22.54
							2029	23.07

EFFECTIVE DATE	ADJUSTABLE COMPONENT
12/1/2004	36.21

The total avoided cost rate in each year is the sum of the adjustable component and the fixed component from either of the tables above.

Example 1. A 20-year levelized contract with a 2005 on-line date would receive the following rates:

Years	Rate
1	15.76 + 36.42
2-20	15.76 + Adjustable component in each year

Example 2. A 4-year non-levelized contract with a 2005 on-line date would receive the following rates:

Years	Rate
1	13.30 + 36.42
2	13.61 + Adjustable component in year 2006
3	13.92 + Adjustable component in year 2007
4	14.24 + Adjustable component in year 2008

**PACIFICORP**  
**AVOIDED COST RATES FOR NON-FUELED PROJECTS**  
**SMALLER THAN TEN MEGAWATTS**  
**December 1, 2004**  
mills/kWh

		LEVELIZED					NON-LEVELIZED	
CONTRACT LENGTH (YEARS)	ON-LINE YEAR						CONTRACT YEAR	NON-LEVELIZED RATES
	2004	2005	2006	2007	2008	2009		
1	50.25	51.41	52.59	53.80	55.03	56.30	2004	50.25
2	50.80	51.97	53.16	54.38	55.64	56.91	2005	51.41
3	51.34	52.52	53.73	54.96	56.23	57.52	2006	52.59
4	51.87	53.06	54.28	55.53	56.80	58.11	2007	53.80
5	52.38	53.59	54.82	56.08	57.37	58.69	2008	55.03
6	52.89	54.10	55.35	56.62	57.92	59.25	2009	56.30
7	53.38	54.61	55.86	57.15	58.46	59.81	2010	57.59
8	53.86	55.10	56.36	57.66	58.99	60.34	2011	58.92
9	54.33	55.57	56.85	58.16	59.50	60.87	2012	60.27
10	54.78	56.04	57.33	58.65	60.00	61.38	2013	61.66
11	55.22	56.49	57.79	59.12	60.48	61.87	2014	63.08
12	55.65	56.93	58.24	59.58	60.95	62.35	2015	64.53
13	56.06	57.35	58.67	60.02	61.40	62.82	2016	66.02
14	56.47	57.77	59.09	60.45	61.84	63.27	2017	67.54
15	56.86	58.16	59.50	60.87	62.27	63.70	2018	69.09
16	57.23	58.55	59.89	61.27	62.68	64.12	2019	70.68
17	57.59	58.92	60.27	61.66	63.08	64.53	2020	72.31
18	57.94	59.28	60.64	62.04	63.46	64.92	2021	73.97
19	58.28	59.62	60.99	62.40	63.83	65.30	2022	75.68
20	58.60	59.95	61.33	62.74	64.19	65.66	2023	77.42
							2024	79.20
							2025	81.03
							2026	82.89
							2027	84.80
							2028	86.76
							2029	88.76

**PACIFICORP**  
**AVOIDED COST RATES FOR FUELED PROJECTS**  
**SMALLER THAN TEN MEGAWATTS**  
**December 1, 2004**  
mills/kWh

LEVELIZED							NON-LEVELIZED	
CONTRACT LENGTH (YEARS)	ON-LINE YEAR						CONTRACT YEAR	NON-LEVELIZED RATES
	2004	2005	2006	2007	2008	2009		
1	14.04	14.36	14.69	15.03	15.38	15.73	2004	14.04
2	14.19	14.52	14.85	15.19	15.54	15.90	2005	14.36
3	14.34	14.67	15.01	15.36	15.71	16.07	2006	14.69
4	14.49	14.82	15.16	15.51	15.87	16.23	2007	15.03
5	14.64	14.97	15.32	15.67	16.03	16.40	2008	15.38
6	14.78	15.12	15.46	15.82	16.18	16.55	2009	15.73
7	14.91	15.26	15.61	15.97	16.33	16.71	2010	16.09
8	15.05	15.39	15.75	16.11	16.48	16.86	2011	16.46
9	15.18	15.53	15.88	16.25	16.62	17.01	2012	16.84
10	15.30	15.66	16.02	16.39	16.76	17.15	2013	17.23
11	15.43	15.78	16.15	16.52	16.90	17.29	2014	17.62
12	15.55	15.91	16.27	16.65	17.03	17.42	2015	18.03
13	15.66	16.02	16.39	16.77	17.16	17.55	2016	18.45
14	15.78	16.14	16.51	16.89	17.28	17.68	2017	18.87
15	15.89	16.25	16.62	17.01	17.40	17.80	2018	19.31
16	15.99	16.36	16.73	17.12	17.51	17.92	2019	19.75
17	16.09	16.46	16.84	17.23	17.63	18.03	2020	20.21
18	16.19	16.56	16.94	17.33	17.73	18.14	2021	20.67
19	16.28	16.66	17.04	17.43	17.84	18.25	2022	21.15
20	16.37	16.75	17.14	17.53	17.94	18.35	2023	21.64
							2024	22.14
							2025	22.65
							2026	23.18
							2027	23.71
							2028	24.26
							2029	24.82

EFFECTIVE DATE

ADJUSTABLE COMPONENT

12/1/2004

36.21

The total avoided cost rate in each year is the sum of the adjustable component and the fixed component from either of the tables above.

Example 1. A 20-year levelized contract with a 2005 on-line date would receive the following rates:

Years	Rate
1	16.75 + 36.42
2-20	16.75 + Adjustable component in each year

Example 2. A 4-year non-levelized contract with a 2005 on-line date would receive the following rates:

Years	Rate
1	14.36 + 36.42
2	14.69 + Adjustable component in year 2006
3	15.03 + Adjustable component in year 2007
4	15.38 + Adjustable component in year 2008